Nuance Communications, Inc.
Form DEF 14A
December 15, 2011

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(RULE 14a-101)
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement

þ Definitive Proxy Statement

o Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))

o Definitive Additional Materials

o Soliciting Material Pursuant to § 240.14a-12

NUANCE COMMUNICATIONS, INC.
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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NUANCE COMMUNICATIONS, INC.
1 Wayside Road
Burlington, MA 01803
(781) 565-5000

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Dear Stockholders:

The Annual Meeting of Stockholders of Nuance Communications, Inc. (the Company) will be held at the Company s office located at 1198 East Arques Avenue, Sunnyvale, CA 94085, on January 27, 2012 at 10:30 a.m., local time, for the purpose of considering and acting upon the following proposals:

(1) To elect nine members of the Board of Directors to hold office until the next annual meeting of stockholders or until their respective successors have been elected and qualified;

(2) To approve an amendment to the Amended and Restated 2000 Stock Plan;

(3) To approve a non-binding advisory resolution regarding executive compensation;

(4) To vote on a non-binding advisory resolution regarding the frequency of future non-binding advisory votes on executive compensation;

(5) To ratify the appointment of BDO USA, LLP as the Company s independent registered public accounting firm for the fiscal year ending September 30, 2012; and

(6) To transact such other business as may properly come before the meeting or any postponement or adjournment thereof.

We will be utilizing the U.S. Securities and Exchange Commission rules that allow issuers to furnish proxy materials to their stockholders via the Internet. Pursuant to these rules, instead of mailing a printed copy of the Company s proxy materials to each stockholder we have elected to provide access to our proxy materials over the Internet. Accordingly, with the exception of certain requesting stockholders who will receive printed copies of the Company s proxy materials by mail, stockholders of record will receive a Notice of Internet Availability of Proxy Materials and may vote at the Annual Meeting and any postponements or adjournments of the meeting. We expect to mail the Notice of Internet Availability of Proxy Materials by December 13, 2011, at least 40 calendar days prior to the Annual Meeting date.

The Board of Directors has fixed the close of business on December 2, 2011 as the record date for determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and at any postponements or adjournments thereof. A list of stockholders entitled to vote at the Annual Meeting will be available at the meeting being held at 1198 East Arques Avenue, Sunnyvale, CA 94085 and for ten days prior to the Annual Meeting.

The Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2011 accompanies this Notice of Annual Meeting of Stockholders and Proxy Statement. These documents may also be accessed on the Broadridge Financial hosted site www.proxyvote.com.

Please refer to the Proxy Statement, which forms a part of this Notice and is incorporated herein by reference, for further information with respect to the business to be transacted at the annual meeting.

By Order of the Board of Directors

Todd M. Duchene
Secretary

Burlington, Massachusetts
December 13, 2011

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YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD IN THE ENCLOSED ENVELOPE.

Important Notice Regarding the Availability of Proxy Materials for the Meeting of Stockholders to be Held on January 27, 2012

1. **This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting.**

2. **The Company s proxy statement and Annual Report on Form 10-K for the fiscal year ended September 30, 2011 are available at the Broadridge Financial hosted site www.proxyvote.com. Shareholders will be required to enter their 12-digit control number contained on their Notice or Proxy Card.**

3. **If you want to receive a paper or e-mail copy of these documents, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed below on or before January 12, 2012 to facilitate timely delivery. Shareholders may select one of the following methods:**

1) By Internet: www.proxyvote.com

2) By Telephone: 1-800-579-1639

3) By E-Mail*: **sendmaterials@proxyvote.com**

* If requesting materials by e-mail, please send a blank e-mail with the 12-Digit Control Number (located on the Notice or Proxy Card) in the subject line.

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NUANCE COMMUNICATIONS, INC.
1 Wayside Road
Burlington, MA 01803
(781) 565-5000

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS
January 27, 2012

This Proxy Statement is furnished in connection with the solicitation by Nuance Communications, Inc. (the Company) on behalf of the Board of Directors (the Board or the Board of Directors) of proxies for use at the Annual Meeting of Stockholders of the Company to be held on January 27, 2012 at 10:30 a.m., local time, at the Company s office located at 1198 East Arques Avenue, Sunnyvale, CA 94085 (the Annual Meeting). We intend to mail and make available this Proxy Statement and the accompanying form of proxy to stockholders on or about December 13, 2011.

VOTING RIGHTS

Each share of the Company s common stock (the Common Stock) entitles the holder thereof to one vote on matters to be acted upon at the Annual Meeting, including the election of directors. The Company s Series B Preferred Stock is not entitled to vote on matters to be acted upon at the Annual Meeting. Votes cast in person or by proxy at the Annual Meeting will be tabulated by Broadridge Financial Solutions, Inc., the Inspector of Elections. Any proxy that is returned using the form of proxy enclosed or voted by Internet according to the instructions included on the proxy card will be voted in accordance with the instructions thereon, and if no instructions are given, will be voted (i) FOR the election of the director nominees as provided under Proposal 1 herein, (ii) FOR the Company s amendment to the Amended and Restated 2000 Stock Plan under Proposal 2 herein, (iii) FOR the non-binding advisory resolution regarding executive compensation under Proposal 4 herein, (iv) FOR the one year as the preferred frequency of the non-binding vote on executive compensation under Proposal 4 herein, (v) FOR ratification of the appointment of BDO USA, LLP as the Company s independent registered public accounting firm under Proposal 5 herein, and (vi) as the proxy holders deem advisable in their sole discretion on any other matters that may properly come before the Annual Meeting. A stockholder may indicate on the enclosed proxy or its substitute that it is abstaining from voting on a particular matter (an abstention). A broker may indicate on the enclosed proxy or its substitute that it does not have discretionary authority as to certain shares to vote on a particular matter (a broker non-vote). Abstentions and broker non-votes are each tabulated separately.

The Inspector of Elections will determine whether or not a quorum is present at the Annual Meeting. In general, Delaware law and our bylaws provide that a majority of the shares issued and outstanding and entitled to vote, present in person or represented by proxy, constitutes a quorum. Abstentions and broker non-votes of shares that are entitled to vote are treated as shares that are present in person or represented by proxy for purposes of determining the presence of a quorum.

In determining whether a proposal has been approved, abstentions are treated as present in person or represented by proxy and entitled to vote, but not as voting for such proposal, and hence have the same effect as votes against such proposal, while broker non-votes are not treated as present in person or represented by proxy, and hence have no effect on the vote for such proposal.

RECORD DATE AND SHARE OWNERSHIP

Holders of record of Common Stock as of the close of business on December 2, 2011 have the right to receive notice of and to vote at the Annual Meeting. On December 2, 2011, the Company had issued and outstanding 302,747,887 shares of Common Stock.

PROXIES

Proxies for use at the Annual Meeting are being solicited by the Company on behalf of the Board of Directors from its stockholders. Any person giving a proxy in the form accompanying this Proxy Statement has the power to revoke it at any time before its exercise by (i) filing with the Secretary of the Company a signed written statement revoking his or her proxy or (ii) submitting an executed proxy bearing a date later than that of the proxy being revoked. A proxy may also be revoked by attendance at the Annual Meeting and the election to vote in person. Attendance at the Annual Meeting will not by itself constitute the revocation of a proxy.

STOCKHOLDER PROPOSALS

Proposals of stockholders that are intended to be presented at the Company s 2013 Annual Meeting of Stockholders must comply with the requirements of SEC Rule 14a-8 and must be received by the Company no later than August 15, 2012 in order to be included in the Company s proxy statement and form of proxy relating to the meeting. A stockholder proposal or a nomination for director for the Company s 2013 Annual Meeting of Stockholders that is not to be included in the Company s proxy statement and form of proxy relating to the meeting must be received by the Company no earlier than September 29, 2012 and no later than October 29, 2012. The Company s bylaws require that certain information and acknowledgements with respect to the proposal or nomination be set forth in the stockholder s notice. A copy of the relevant bylaw provision is available upon written request to Nuance Communications, Inc., 1 Wayside Road, Burlington, MA 01803, Attention: Investor Relations. Further, our bylaws were filed as an exhibit to our Current Report on Form 8-K, filed with the Securities and Exchange Commission (the SEC) on November 13, 2007.

PROXY SOLICITATION COSTS

The expense of solicitation of proxies will be borne by the Company. In addition to solicitation of proxies by mail, certain officers, directors and Company employees, who will receive no additional compensation for their services, may solicit proxies by telephone, telegraph or in person. The Company is required to request brokers and nominees who hold stock in their name to furnish this proxy material to beneficial owners of the stock and will reimburse such brokers and nominees for their reasonable out-of-pocket expenses in so doing. In addition, we have engaged Alliance Advisors to assist in the solicitation of proxies and provide related advice and informational support for a service fee of $12,000 plus reimbursement of out-of-pocket expenses.

PROPOSAL NUMBER 1

ELECTION OF DIRECTORS

The Nominating Committee of the Board of Directors recommended, and the Board of Directors approved, Paul A. Ricci, Robert J. Frankenberg, Patrick T. Hackett, William H. Janeway, Mark R. Laret, Katharine A. Martin, Mark B. Myers, Philip J. Quigley and Robert G. Teresi as nominees for election at the Annual Meeting. At the Annual Meeting, nine directors will be elected to the Board. Except as set forth below, unless otherwise instructed, the persons appointed in the accompanying form of proxy will vote the proxies received by them for the nominees named below, who are all presently directors of the Company. Messrs. Hackett and Janeway are being nominated for election to our Board by Warburg Pincus & Co. pursuant to the terms of a Stockholders Agreement described herein under Transactions with Related Persons. In the event that any nominee becomes unavailable, the proxy holders will vote in their discretion for a substitute nominee. The term of office of each person elected as a director will continue until the next Annual Meeting of Stockholders or until a successor has been elected and qualified.

Information Regarding the Nominees for Election as Directors

The following information with respect to the principal occupation or employment, other affiliations and business experience during the last five years of the nominees has been furnished to the Company by such nominees. Except as indicated, the nominees have had the same principal occupation during the last five years.

Paul A. Ricci, 55, has served as our Chairman since March 2, 1999 and our Chief Executive Officer since August 21, 2000. From May 1992 to August 2000, Mr. Ricci held several positions at Xerox including, President, Desktop Systems Division, President, Software Solutions Division, and Vice President, Corporate Business Development. Between June 1997 and March 1999, Mr. Ricci served as Chairman of the Board of Directors of Nuance Communications, Inc. (formerly, ScanSoft Inc.), which was then operating as an indirect wholly-owned subsidiary of Xerox. Mr. Ricci s leadership position at the Company, his management abilities and experience, and his extensive knowledge of our industry qualify him to serve as a member of our Board of Directors.

Robert J. Frankenberg, 64, has served as a director since March 13, 2000. Mr. Frankenberg is owner of NetVentures, a management consulting firm. From December 1999 to July 2006, Mr. Frankenberg served as Chairman of Kinzan, Inc., an Internet Services software platform provider. From May 1997 to July 2000, Mr. Frankenberg served as Chairman, President and Chief Executive Officer of Encanto Networks, Inc., a developer of hardware and software designed to enable the creation of businesses on the Internet. From April 1994 to August 1996, Mr. Frankenberg was Chairman, President and Chief Executive Officer of Novell, Inc., a producer of network and office software. Mr. Frankenberg was a director of National Semiconductor through September 2011. Mr. Frankenberg also serves on several boards of privately held companies. Previously, Mr. Frankenberg served as a director of Electroglas, Inc., Extended Systems Incorporated and Secure Computing Inc. Mr. Frankenberg serves as Chairman of our Audit and Compensation Committees and also serves on our Governance and Nominating Committees. Mr. Frankenberg s experience as chairman, president and chief executive officer of numerous technology companies and his significant board experience (both with the Company and elsewhere) provides expertise in technology, business operations, corporate development, strategy, financial reporting, governance and board best practices.

Patrick T. Hackett, 50, has served as a director since January 30, 2009 and was appointed to the Board pursuant to the terms of a Stockholders Agreement between the Company and Warburg Pincus. Mr. Hackett is a Managing Director and co-head of the Technology, Media and Telecommunications group at Warburg Pincus LLC, which he joined in 1990. Mr. Hackett serves as a director of Bridgepoint Education, Inc. and several privately held companies. Mr. Hackett earned a B.A. from the University of Pennsylvania and a B.S. from the Wharton School of Business at the

University of Pennsylvania. Mr. Hackett brings leadership expertise to the Board of Directors, with a focus on corporate strategy and corporate governance, which has been gained through his experience as a director and investor in technology companies.

William H. Janeway, 68, has served as a director since April 2004 and was appointed to the Board pursuant to the terms of a Stockholders Agreement between the Company and Warburg Pincus. Mr. Janeway is a Senior Advisor at Warburg Pincus LLC and has been employed by Warburg Pincus LLC since July 1988. Prior to joining Warburg Pincus LLC, Mr. Janeway served as Executive Vice President and a director at Eberstadt Fleming Inc. from 1979 to

July 1988. Mr. Janeway is a director of several privately held companies. Mr. Janeway holds a B.A. from Princeton University and a Ph.D. from Cambridge University, where he studied as a Marshall Scholar. As a private equity investor, Mr. Janeway brings strategic insights and financial experience to the Board. He has evaluated, invested in and served as a board member on numerous companies and is familiar with a full range of corporate and board functions.

Mark R. Laret, 57, has served as a director since June 3, 2010. Since April 2000, Mr. Laret has served as CEO of the University of California San Francisco Medical Center. Mr. Laret serves as a director of Varian Medical Systems, Inc. Mr. Laret earned a B.A. from UCLA and a master s degree in political science from the University of Southern California. Mr. Laret serves on our Audit Committee. Mr. Laret s corporate executive experience in the healthcare industry, his significant professional expertise and background in medical and technical issues qualifies him to be a member of our Board of Directors.

Katharine A. Martin, 49, has served as a director since December 17, 1999. Since September 1999, Ms. Martin has served as a Member of Wilson Sonsini Goodrich & Rosati, Professional Corporation. Prior thereto, Ms. Martin was a Partner of Pillsbury Madison & Sutro LLP. Ms. Martin also serves on the board of directors of the Wilson Sonsini Goodrich & Rosati Foundation, a nonprofit organization, The Ronald McDonald House at Stanford, a nonprofit organization and WildAid, a nonprofit organization. Ms. Martin serves as Chairman of our Governance Committee. Ms. Martin has twenty-three years experience practicing corporate and securities law, and has extensive experience representing public companies. Ms. Martin brings to the Board expertise in corporate governance, acquisitions, capital market transactions and securities law.

Mark B. Myers, 73, has served as a director since March 2, 1999. Dr. Myers served as Senior Vice President, Xerox Research and Technology from February 1992 until April 2000. From 2000 to 2005, Dr. Myers was a Senior Fellow, and from 2002 to 2005 was a visiting Executive Professor, at the Wharton School, University of Pennsylvania. Dr. Myers serves as Chairman of our Nominating Committee and also serves on our Audit and Compensation Committees. Mr. Myers brings to the board of directors his extensive experience in the technology industry and his service as a director of the Company since 1999, which affords him unique perspectives on our growth and evolution.

Philip J. Quigley, 69, has served as a director since the consummation of our acquisition of the former Nuance Communications, Inc. in September 2005, and was originally appointed to the Board in accordance with the terms of the Merger Agreement pursuant to which the Company acquired the former Nuance Communications, Inc. Mr. Quigley served as Chairman, President, and Chief Executive Officer of Pacific Telesis Group, a telecommunications holding company in San Francisco, California, from April 1994 until his retirement in December 1997. He also serves as a director of Wells Fargo & Company and as an advisor or director to several private organizations. Mr. Quigley serves on our Audit Committee. Mr. Quigley has extensive leadership and business management experience, which he acquired over a 30-year career in the telecommunications industry, including during that time as chairman, president and CEO of Pacific Telesis Group. Mr. Quigley s experience at Pacific Telesis included mergers and acquisitions, and also provided him with extensive financial management experience.

Robert G. Teresi, 70, has served as a director since March 13, 2000. Mr. Teresi served as Chairman of the Board, Chief Executive Officer and President of Caere Corporation from May 1985 until March 2000. Mr. Teresi serves on our Governance Committee. Mr. Teresi served as CEO of Caere Corporation for fifteen years and brings significant business insight and experience to the Board.

Required Vote

The nine nominees receiving the highest number of affirmative votes of the shares of the Company s Common Stock present at the Annual Meeting in person or by proxy and entitled to vote shall be elected as directors. Unless marked to the contrary, proxies received will be voted FOR management s nominees. Abstentions and broker non-votes will not affect the outcome of the vote.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE ELECTION OF THE FOREGOING NOMINEES TO SERVE AS DIRECTORS UNTIL THE NEXT ANNUAL MEETING OF STOCKHOLDERS.

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CORPORATE GOVERNANCE

Board of Director Meetings and Committees

The Board of Directors held a total of ten meetings during the fiscal year ended September 30, 2011. Each director attended at least 75% of the aggregate number of meetings of the Board of Directors and the committees of the Board of Directors on which he or she served.

Board Independence

The Board of Directors has determined that Ms. Martin and each of Messrs. Frankenberg, Hackett, Janeway, Laret, Myers, Quigley and Teresi are independent within the meaning of the listing standards of the NASDAQ Stock Market.

Committees of the Board of Directors

The Board of Directors has Audit, Nominating, Governance and Compensation Committees. Each of these committees has adopted a written charter. All members of the committees are appointed by the Board of Directors, and are non-employee directors. The following describes each committee, its current membership, the number of meetings held during the fiscal year ended September 30, 2011 and its function.

Audit Committee

The Audit Committee consists of Messrs. Frankenberg, Laret, Myers and Quigley, each of whom is independent within the meaning of the listing standards of the NASDAQ Stock Market. The Audit Committee held seven meetings during the fiscal year ended September 30, 2011. Mr. Frankenberg serves as Chairman of the Audit Committee.

The Board of Directors has determined that Mr. Frankenberg is an audit committee financial expert as defined by Item 407(d)(5)(ii) of Regulation S-K of the Securities Exchange Act of 1934, as amended (the Exchange Act). Mr. Frankenberg s relevant experience includes his service as the Chief Executive Officer of Novell, Inc., where he actively supervised that company s principal financial officer, and his service as a member of several other audit committees.

The Audit Committee reviews the engagement of the Company s independent registered public accounting firm, reviews annual financial statements, considers matters relating to accounting policy and internal controls, reviews whether non-audit services provided by the independent registered public accounting firm affect the accountants independence and reviews the scope of annual audits in accordance with a written Audit Committee Charter.

The Audit Committee Report is included in this Proxy Statement. In addition, the Board of Directors adopted an Amended and Restated Charter for the Audit Committee in February 2004, a copy of which is available on the Company s Web site at http://www.nuance.com/company/company-overview/company-policies/corporate-governance/audit-committee/index.htm.

Nominating Committee

The Nominating Committee consists of Messrs. Frankenberg and Myers, each of whom is independent within the meaning of the listing standards of the NASDAQ Stock Market. Mr. Myers serves as the Chairman of the Nominating Committee.

The mandate of the Nominating Committee is to ensure that the Board of Directors is properly constituted to meet its fiduciary obligations to stockholders and the Company. The Nominating Committee was formed to consider and periodically report on matters relating to the identification, selection and qualification of the Board of Directors and candidates nominated to the Board of Directors and its committees.

The Nominating Committee held one meeting during the fiscal year ended September 30, 2011. The Board of Directors adopted a written charter for the Nominating Committee in February 2004, a copy of which is available on

the Company s Web site at
http://www.nuance.com/company/company-overview/company-policies/corporate-governance/nominating-committee/index.ht

Governance Committee

The Governance Committee consists of Ms. Martin and Messrs. Frankenberg and Teresi, each of whom is independent within the meaning of the listing standards of the NASDAQ Stock Market. Ms. Martin serves as the Chairman of the Governance Committee.

The mandate of the Governance Committee is to ensure that the Board of Directors and the Company have and follow appropriate governance standards. To carry out this purpose, the Governance Committee develops and recommends to the Board the governance principles applicable to the Company and oversees the evaluation of the Board.

The Governance Committee held one meeting during the fiscal year ended September 30, 2011. The Board of Directors adopted a written charter for the Governance Committee in February 2004, a copy of which is available on the Company s Web site at
http://www.nuance.com/company/company-overview/company-policies/corporate-governance/governance-committee/index.ht

Compensation Committee

The Compensation Committee consists of Messrs. Frankenberg and Myers, each of whom is independent within the meaning of the listing standards of the NASDAQ Stock Market, is a non-employee director within the meaning of Section 16 of the Exchange Act and is also an outside director within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. Mr. Frankenberg serves as the Chairman of the Compensation Committee. The mandate of the Compensation Committee is to review and recommend to the Board of Directors the Company s compensation and benefit policies, and oversee, evaluate and approve compensation plans, policies and programs for the Company s executive officers.

The Compensation Committee held eight meetings during the fiscal year ended September 30, 2011. The Board of Directors adopted a written charter for the Compensation Committee in February 2004, a copy of which is available on the Company s Web site at
http://www.nuance.com/company/company-overview/company-policies/corporate-governance/compensation-committee/index

The Compensation Committee Report and Compensation Discussion and Analysis are included elsewhere in this Proxy Statement.

Consideration of Director Nominees

Stockholder Nominees

The Nominating Committee will consider properly submitted stockholder nominations for candidates for membership on the Board of Directors as well as candidates recommended for consideration by the Nominating Committee as described below under Identifying and Evaluating Nominees for Directors. Any stockholder nominations must comply with the requirements of the Company s amended and restated bylaws and should include all information relating to such nominee as would be required to be disclosed in solicitations of proxies for the election of such nominee as a director pursuant to Regulation 14A under the Exchange Act, such nominee s written consent to be named in the proxy statement as a nominee and to serve as a director if elected, as well as a written statement executed by such nominee acknowledging that as a director of the Company, such nominee will owe a fiduciary duty under the General Corporation Law of the State of Delaware exclusively to the Company and its stockholders. In addition, stockholder nominations should be submitted within the time frame as specified under Stockholder Proposals above and addressed to: Nuance Communications, Inc., Attention: General Counsel, 1 Wayside Road, Burlington, MA 01803.

A stockholder that instead desires to merely recommend a candidate for consideration by the Nominating Committee shall direct the recommendation in writing to Nuance Communications, Inc., Attention: General Counsel, 1 Wayside Road, Burlington, MA 01803, and must include the candidate s name, home and business

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contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and the Company within the last three years and evidence of the nominating person s ownership of Company stock.

Director Qualifications

In discharging its responsibilities to nominate candidates for election to the Board of Directors, the Nominating Committee has not specified any minimum qualifications for serving on the Board of Directors. However, the Nominating Committee endeavors to evaluate, propose and approve candidates with business experience and personal skills in technology, finance, marketing, financial reporting and other areas that may be expected to contribute to an effective Board of Directors. The Nominating Committee seeks to ensure that the Board of Directors is composed of individuals who have experience relevant to the needs of the Company and who have the highest professional and personal ethics, consistent with the Company s values and standards. Candidates should be committed to enhancing stockholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience.

Identifying and Evaluating Nominees for Directors

The Nominating Committee utilizes a variety of methods for identifying and evaluating director nominees. Candidates may come to the attention of the Nominating Committee through current members of the Board of Directors, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating Committee and may be considered at any point during the year. As described above, the Nominating Committee considers properly submitted stockholder nominations and recommendations for candidates for the Board of Directors. Following verification of the stockholder status of persons proposing candidates, nominations and recommendations are aggregated and considered by the Nominating Committee. If any materials are provided by a stockholder in connection with the nomination or recommendation of a director candidate, such materials are forwarded to the Nominating Committee. The Nominating Committee also reviews materials provided by professional search firms or other parties in connection with a nominee who is not proposed by a stockholder. Historically, some of our directors have served on the boards of directors of companies we have acquired.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Messrs. Frankenberg and Myers. Neither of the members of the Compensation Committee has been or is an officer or employee of the Company. None of the Company s executive officers serve on the board of directors or compensation committee of a company that has an executive officer that serves on the Company s Board or Compensation Committee.

Annual Meeting Attendance

Although we do not have a formal policy regarding attendance by members of the Board of Directors at our annual meetings of stockholders, directors are encouraged to attend annual meetings of the Company. Five directors attended the 2011 annual meeting of stockholders.

Communication with the Board of Directors

Although we do not have a formal policy regarding communications with the Board of Directors, stockholders who are interested in communicating with the Board of Directors are encouraged to do so by submitting an email to generalcounsel@nuance.com or by writing to us at Nuance Communications, Inc., Attention: General Counsel, 1 Wayside Road, Burlington, MA 01803. Stockholders who would like their submission directed to a member of the

Board of Directors may so specify. Communications will be reviewed by the General Counsel and forwarded to the Board, or the individual, if so specified, as appropriate.

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Code of Ethics

Our Board of Directors adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees on February 24, 2004. Our Code of Business Conduct and Ethics can be found on our website: http://www.nuance.com/company/company-overview/company-policies/corporate-governance/code-of-ethics/index.htm. We will provide to any person without charge, upon request, a copy of our Code of Business Conduct and Ethics. Such a request should be made in writing and addressed to Nuance Communications, Inc., Attention: Investor Relations, 1 Wayside Road, Burlington, MA 01803. Further, our Code of Business Conduct and Ethics was filed as an exhibit to our Annual Report on Form 10-K, filed with the SEC on March 15, 2004.

Stock Ownership Guidelines

On August 11, 2006, the Board of Directors adopted stock ownership guidelines for our executive officers and non-employee directors. The guidelines were adopted to further align the interests of our executive officers and non-employee directors with the interests of the stockholders. Under these guidelines, the target share ownership levels are five times base salary for our chief executive officer, three times base salary for our other executive officers, and three times the annual cash retainer for our non-employee directors. Shares of the Company s common stock subject to unexercised options, whether or not vested, as well as unvested restricted stock awards are not counted for purposes of satisfying these guidelines. We have not specified a time period during which individuals must be in compliance with the guidelines, however, until an individual has reached the target level, he or she will be required to retain 25% of the net shares received as a result of the exercise of stock options or vesting of restricted stock or restricted stock units until the guidelines are met. Ownership guidelines are calculated based on the closing market price of the Company s common stock on a quarterly basis.

Corporate Governance Guidelines

Our corporate governance principles are set forth in our Corporate Governance Guidelines. These guidelines cover the following significant topics:

Board Selection Process. It is expected that all directors will be alert to potential Board candidates with appropriate skills and characteristics and communicate information regarding Board selection matters to the Nominating Committee. The Nominating Committee is expected to exercise initiative in recommending to the Board candidates for directorships and Board committee assignments. The Company does not have a formal policy with regard to the consideration of diversity in identifying Director nominees; however, the Board endorses the value of seeking qualified directors from backgrounds otherwise relevant to the Company s mission, strategy and business operations and perceived needs of the Board at a given time.

Director s Eligibility, Education, and Term of Office. Directors may not serve on the board of directors of more than five other public companies. Directors are reimbursed for costs incurred in connection with participating in director education programs. Each director is required to notify the Chairman upon a job change. The Governance Committee may consider such change of status in recommending to the Board whether the director should continue serving as a member of the Board. Directors must retire from the Board at the conclusion of any term during which the director reaches the age of seventy-five years, unless waived by the Board.

Committees. The current committee structure of the Board includes the following committees: Audit, Compensation, Nominating and Governance. The charters of each standing committee are reviewed periodically with a view to delegating committees with the authority of the Board concerning specified matters appropriate to such committee.

Board s Role in Risk Oversight

The Board has an active role, as a whole and also at the committee level, in overseeing management of Company risk. This role is one of informed oversight rather than direct management of risk. The Board regularly reviews and consults with management on strategic direction, challenges and risks faced by the Company. The Board also reviews and discusses with management quarterly financial results and forecasts. The Audit Committee of the Board oversees management of financial risks, including its investment policies. The Compensation

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Committee of the Board is responsible for overseeing the management of risks relating to and arising from the Company s compensation plans and arrangements. These committees provide regular reports, generally on a quarterly basis, to the full Board.

Management is tasked with the direct management and oversight of legal, financial, and commercial compliance matters, which includes identification and mitigation of associated areas of risk. The Chief Financial Officer, the Chief Accounting Officer and Director of Compliance provide regular reports to the Audit Committee concerning financial, tax and compliance related risks. In addition, the Audit Committee receives periodic reports from management on the Company s compliance programs and efforts, investment policy and practices, and compliance with debt covenants. Management and the Company s compensation consultant provide analysis of risks related to the Company s compensation programs and practices to the Compensation Committee.

The Board s Leadership Structure

The Board currently combines the role of Chairman and Chief Executive. The Board believes that the Chief Executive Officer is best situated to serve as Chairman because he is the director most familiar with the Company s business and industry and is therefore best able to identify the strategic priorities to be discussed by the Board. The Board believes that combining the role of Chairman and Chief Executive Officer facilitates information flow between management and the Board and fosters strategic development and execution. The Board has appointed Robert Frankenberg as the lead independent director. The lead independent director serves as the focal point for independent directors, coordinating feedback to the CEO on behalf of the independent directors regarding business issues and board management. The lead independent director and the other independent directors meet regularly without the CEO present.

Compensation Risk Assessment

In November 2011, the Compensation Committee and management considered whether the Company s compensation programs for employees create incentives for employees to take excessive or unreasonable risks that could materially harm the Company. The Compensation Committee believes that our compensation plans are typical for our industry and that risks arising from our compensation policies and practices are not reasonably likely to have a material adverse effect on the Company.

Compensation of Non-Employee Directors

For fiscal 2011, each non-employee director received an annual cash retainer of $30,000. The Chairman of the Audit Committee received an additional annual cash retainer of $15,000 and the other members of the Audit Committee received an additional annual cash retainer of $7,500. The Chairman of the Compensation Committee received an additional annual cash retainer of $10,000 and the other members of the Compensation Committee received an additional annual cash retainer of $5,000. The Chairmen of the Nominating and Governance Committees received additional annual cash retainers of $5,000 and the other members of the Nominating and Governance Committees received additional annual cash retainers of $2,500. In addition to the annual cash retainer, each non-employee director receives $2,000 for each Board meeting attended in person, $1,500 for each Committee meeting attended in person and $750 for each Board or Committee meeting attended telephonically. The Company also reimburses directors for expenses in connection with their attendance at meetings.

Non-employee directors are also entitled to participate in the 1995 Directors Stock Option Plan, as amended (the Directors Plan). The Directors Plan provides that an initial restricted stock unit award for 30,000 shares of the Company s common stock will be granted to non-employee directors upon first joining the Board of Directors as a non-employee director, with a purchase price equal to $0.001 per share. In addition, non-employee directors will be eligible to automatically receive annual restricted stock unit awards for 15,000 shares of the Company s common stock on January 1 of each year, provided that, on such date, he or she shall have served on the Board of Directors for at least six months, with a purchase price equal to $0.001 per share. All restricted stock unit awards granted to our non-employee directors vest annually over a three-year period, subject to the non-employee director s continuous service to the Company through such vesting date.

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The following table provides information regarding the actual cash and equity compensation earned, paid to and received by our non-employee directors during fiscal 2011:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Total ($)
Robert J. Frankenberg	89,750	274,710	364,460
Patrick T. Hackett	41,000	274,710	315,710
William H. Janeway	41,750	274,710	316,460
Mark R. Laret	41,750	274,710	316,460
Katharine A. Martin	48,250	274,710	322,960
Mark B. Myers	77,250	274,710	351,960
Philip J. Quigley	54,000	274,710	328,710
Robert G. Teresi	45,750	274,710	320,460

(1) Amounts reported in the Stock Awards column represent the grant date fair value with respect to the awards granted to our non-employee directors during fiscal 2011, computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, *Compensation-Stock Compensation* (FASB ASC Topic 718). During fiscal 2011, there were no forfeitures of stock awards by any of the non-employee directors. The grant date fair value of each stock award granted during fiscal 2011 is set forth in the following table, computed in accordance with FASB ASC Topic 718 based on the closing market price of the Company s common stock on the grant date:

Name	Grant Date	Shares	Value
Mr. Frankenberg	January 1, 2011	15,000	$ 274,710
Mr. Hackett	January 1, 2011	15,000	$ 274,710
Mr. Janeway	January 1, 2011	15,000	$ 274,710
Mr. Laret	January 1, 2011	15,000	$ 274,710
Ms. Martin	January 1, 2011	15,000	$ 274,710
Mr. Myers	January 1, 2011	15,000	$ 274,710
Mr. Quigley	January 1, 2011	15,000	$ 274,710
Mr. Teresi	January 1, 2011	15,000	$ 274,710

The aggregate number of shares of the Company s common stock subject to outstanding stock awards held by each non-employee director as of September 30, 2011 is set forth in the following table:

Name	Shares Subject to Outstanding Stock Awards

Mr. Frankenberg	30,000
Mr. Hackett	35,000
Mr. Janeway	30,000
Mr. Laret	35,000
Ms. Martin	30,000
Mr. Myers	30,000
Mr. Quigley	30,000
Mr. Teresi	30,000

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The aggregate number of shares of the Company s common stock subject to outstanding stock options held by each non-employee director as of September 30, 2011 is set forth in the following table. There were no stock options granted to our non-employee directors during fiscal 2011.

Name	Shares Subject to Outstanding Stock Options
Mr. Frankenberg	75,000
Mr. Hackett	
Mr. Janeway	80,000
Mr. Laret	
Ms. Martin	60,000
Mr. Myers	
Mr. Quigley	
Mr. Teresi	

In November 2011, the Board of Directors approved a change in cash compensation for our non-employee directors. Effective January 1, 2012, our non-employee directors will no longer receive fees for each Board and Committee meeting attended. Instead, they will be provided with a cash retainer for Board and Committee service, 25% of which is payable on a quarterly basis following the quarter of service, as follows:

Board/Committee	Applicable Retainer
Board	$ 50,000
Audit Committee Chair	$ 30,000
Audit Committee Member	$ 15,000
Compensation Committee Chair	$ 25,000
Compensation Committee Member	$ 15,000
Nominating Committee Chair	$ 10,000
Nominating Committee Member	$ 5,000
Governance Committee Chair	$ 10,000
Governance Committee Member	$ 5,000
Lead Director	$ 20,000

EXECUTIVE COMPENSATION, MANAGEMENT AND OTHER INFORMATION

Information Concerning Current Executive Officers Who Are Not Directors

Thomas L. Beaudoin, 58, joined the Company in July 2008 as our Executive Vice President of Finance and has served as our Executive Vice President and Chief Financial Officer since August 2008. Mr. Beaudoin was employed by Polaroid Corporation from February 2004 to June 2008, during which time he served as President, Chief Financial Officer and Chief Operating Officer from July 2005 to June 2008 and Vice President and Controller from February 2004 to June 2005. Prior to joining Polaroid, Mr. Beaudoin served as a financial consultant to Sycamore Networks, Inc. from October 2003 to February 2004. From November 2002 to May 2003, Mr. Beaudoin served as acting Chief Financial Officer and from October 2000 to October 2002 was Senior Vice President of Finance for Parametric Technology Corporation.

A. Bruce Bowden, 42, joined the Company in October 2010 as our Senior Vice President of Corporate Strategy and was elected as an Executive Officer on November 15, 2010. Mr. Bowden was employed by Nokia from June 2006 through April 2010 in a number of different positions, most notably as Vice President and Global Head of Mergers and Acquisitions. Prior to joining Nokia, Mr. Bowden served as Director, Corporate Strategy & Development (head of North American M&A) for PepsiCo from November 2004 through June 2006.

Steven G. Chambers, 49, currently serves as Executive Vice President, Worldwide Sales, and Chief Marketing Officer. Mr. Chambers served as President of our Mobility and Consumer Services Division from October 2007 to November 2008 and President of our Enterprises Division from November 2008 to November 2009. Mr. Chambers served as President of our SpeechWorks Solutions Business Unit from March 2004 to October 2007. Mr. Chambers joined Nuance in August 2003 as General Manager of our Networks Business Unit in connection with our acquisition of SpeechWorks International, Inc. From September 1999 to August 2003, Mr. Chambers served as the Chief Marketing Officer of SpeechWorks International, Inc.

Janet M. Dillione, 52, joined the Company in April 2010 and currently serves as our Executive Vice President & General Manager of our Healthcare Division and was elected as an executive officer in May 2010. Prior to joining the Company, Ms. Dillione held several senior level management positions at Siemens Medical Solutions with the most recent position being President and CEO of their global healthcare IT division. She was employed by Siemens from June 2000 to April 2010.

William Nelson, 56, joined the Company in April 2011 and currently serves as our Executive Vice President of Worldwide Sales and was elected as an executive officer in May 2011. Prior to joining the Company, Mr. Nelson was employed by SunGuard Availability Services as Executive Vice President of North American Sales. Prior to joining SunGuard, Mr. Nelson served as Executive Vice President of Global Sales at Nortel Networks from 2008 2009. Prior to joining Nortel Networks, Mr. Nelson served as Senior Vice President, Resource Management Software and Telecommunications/Media & Entertainment Business Units for EMC Corporation from 2001-2008.

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COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with management the following Compensation Discussion and Analysis included in this proxy statement. Based on its review and discussion with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and, by reference, in the Company s Annual Report on Form 10-K for the fiscal year ending September 30, 2011.

The Compensation Committee:

Mr. Frankenberg, Chairman
Mr. Myers

COMPENSATION DISCUSSION & ANALYSIS

Compensation Discussion and Analysis

Executive Summary

This Compensation Discussion and Analysis provides information regarding the fiscal 2011 compensation program for our principal executive officer, our principal financial officer, and the three executive officers (other than our principal executive officer and principal financial officer) who were our next most highly-compensated executive officers as of the end of fiscal 2011. These individuals were:

Paul Ricci, our Chairman of the Board of Directors and Chief Executive Officer (our CEO);

Thomas Beaudoin, our Executive Vice President and Chief Financial Officer (our CFO);

Steven Chambers, our President World Wide Sales and Marketing;

Janet Dillione, our Executive Vice President and GM Healthcare; and

William Nelson, our Executive Vice President World Wide Sales.

These executives were our named executive officers (the Named Executive Officers) for fiscal 2011. In this Compensation Discussion and Analysis, Nuance Communications, Inc. is referred to as our, us, we, or the Company

This Compensation Discussion and Analysis describes the material elements of our executive compensation program during fiscal 2011. It also provides an overview of our executive compensation philosophy, as well as our principal compensation policies and practices. Finally, it analyzes how and why the Compensation Committee of the Board of Directors (the Compensation Committee) arrived at the specific compensation decisions for our executives, including the Named Executive Officers, in fiscal 2011, and discusses the key factors that the Compensation Committee considered in determining their compensation.

Fiscal 2011 Financial Highlights

Fiscal 2011 was a year of many accomplishments as well as important challenges. We reported 18% revenue growth and 21% operating cash flow growth, which were driven by strength in the Healthcare, Mobile & Consumer and Imaging markets. We also continued to maintain a disciplined approach in controlling operating costs.

Fiscal 2011 was a strong year for the Company.

In our Healthcare markets, revenue grew from $444.6 million in fiscal 2010 to $515.2 million in fiscal 2011. Healthcare, on-demand revenue grew due to strong bookings and implementation of large medical transcription contracts, while at the same time license revenue grew as we increasingly serve the market for electronic medical records.

In our Mobile and Consumer markets, revenue grew from $297.3 million in fiscal 2010 to $378.7 million in fiscal 2011. Mobile and Consumer growth was driven by design wins to embed our technology in handsets and automobiles, enabling us to continue to increase both the adoption of our products in more models and also the depth of penetration, as devices increased the number of functions powered by our solutions. In addition, mobile services adoption increased, linked to downloadable applications, Web services, voicemail-to-text services, and services offered directly on devices. During fiscal 2011, we had our most successful Dragon Consumer quarter and fiscal year.

In our Enterprise markets, revenue declined slightly from $293.9 million to $291.8 million. Although total revenue declined slightly in our Enterprise markets, product and license revenue grew, we made progress in the business by implementing large on-demand contracts, and we entered into new contracts and pilot projects for our mobile customer care solution. In addition, we delivered several new products expected to contribute to revenue in fiscal 2012.

In our Imaging markets, revenue grew from $83.1 million to $133.0 million. The acquisitions of eCopy and Equitrac contributed to significant revenue growth as well as channel and product expansion. During fiscal 2011, we made investments targeted at improving organic revenue growth.

Across our product lines, we expanded our technology, improved performance, and introduced support for additional languages. We also increased our technical and sales capacity by growing our research and development, professional services and sales teams.

Fiscal 2011 Executive Compensation Actions

As reflected in our compensation philosophy, we set the compensation of our executive officers, including the Named Executive Officers, based on their ability to successfully execute our annual operational plan which is intended to further our long-term business objectives and to create sustainable long-term stockholder value in a cost-effective manner. Accordingly, our fiscal 2011 compensation actions and decisions were based on our executive officers accomplishments in these dual areas.

For fiscal 2011, the Compensation Committee took the following actions with respect to the compensation of our executive officers, including the Named Executive Officers:

increased base salaries by between 0% and 30.4% of their fiscal 2010 levels;

awarded annual bonus payments ranging from 87% to 100% of each executive officer s target bonus opportunity pursuant to the Company s bonus plan. In making these determinations, after consultation with the Company s CEO, the Compensation Committee took into consideration the Named Executive Officers individual efforts, the Company s financial performance and the final assessment of management business objective goals that enabled us to position the Company for sustained growth in the future; and

approved equity awards at levels that the Compensation Committee believes met competitive market concerns, satisfied our retention objectives and rewarded corporate and individual performance in fiscal 2011.

In determining the size of the equity awards to the Named Executive Officers in fiscal 2011, the Compensation Committee determined that the awards should be sufficient to maintain market competitiveness with the executives in comparable positions at the companies in our peer group. Further, the Compensation Committee also took into consideration the fact that, consistent with our compensation philosophy, these awards increased the Named Executive Officers stake in the Company, thereby reinforcing their incentive to manage our business as owners and subjecting a significant portion of their total compensation to fluctuations in the market price of our common stock in alignment with stockholder interests.

The Compensation Committee continued with its philosophy of pay-for-performance in fiscal 2011 by continuing its practice to place a much greater emphasis on the at-risk earnings of our Named Executive Officers so that their interests were better aligned with the interests of our stockholders. The Compensation Committee offers significant levels of at-risk compensation in the form of stock options, restricted stock units and performance-based restricted stock unit awards that are directly tied to our financial performance and the creation of stockholder value. For fiscal 2011, the Compensation Committee targeted total direct compensation (comprised of base salary, annual cash incentives and equity-based compensation) to be heavily driven by Company and individual performance. At this target level of performance, total direct compensation is positioned at or above the 75th percentile of our peer group. The rationale behind the total compensation being at or above the 75th percentile is that a significant portion, more than 50% of the executive officers total compensation is at risk and if they do not perform, the value would decrease and not be paid out. The 75th percentile or above would be achieved if they are performing which directly aligns their interests with the interests of the shareholders.

Fiscal 2011 Corporate Governance Highlights

We endeavor to maintain good governance standards consistent with our executive compensation policies and practices. The following policies and practices were in effect during fiscal 2011:

The Compensation Committee is comprised solely of independent directors who have established effective means for communicating with stockholders regarding their executive compensation ideas and concerns.

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The Compensation Committee engaged its own compensation consultant, Pearl Meyer & Partners and Compensia to assist with its fiscal 2011 and fiscal 2012 compensation reviews. These consultants performed no consulting or other services for us.

The Compensation Committee conducts an annual review and approval of our compensation strategy, including a review of our comparative peer framework and compensation-related risk profile to ensure that our compensation-related risks are not reasonably likely to have a material adverse effect on the Company.

Our fiscal 2012 awards to Named Executive Officers vest or are earned over two to three years which is longer than our past practice, consistent with current market practice, and better serves our retention objectives.

Our compensation philosophy and related governance features are complemented by several specific elements that are designed to align our executive compensation with long-term stockholder interests, including the following:

We do not currently offer, nor do we have plans to provide, pension arrangements, retirement plans or nonqualified deferred compensation plans or arrangements to our executive officers, including the Named Executive Officers;

We provide limited perquisites to our executive officers, including the Named Executive Officers. Our executive officers participate in broad-based company-sponsored health and welfare benefits programs on the same basis as our other full-time, salaried employees;

Executive officers are not entitled to any tax reimbursement payments (including gross-ups) on any severance or change-in-control payments or benefits; All change-in-control payments and benefits are based on a double-trigger arrangement, *i.e.*, requiring both a change-in-control of the Company ***plus*** a qualifying termination of employment before payments and benefits are paid;

We use performance-based short- and long-term incentives; and

We maintain rigorous stock ownership guidelines for executive officers and non-employee directors.

Compensation Objectives and Challenges

Our overall compensation objective is to compensate our executive officers and other employees in a manner that attracts and retains the caliber of individuals needed to manage and staff a high-growth, highly-acquisitive business in an innovative industry. For our executive officers, including the Named Executive Officers, we seek to align our executive compensation program with the interests of our stockholders by tying a significant portion of our executive officers total compensation to the performance of our common stock.

Currently, we face challenges in hiring and retaining executive officers due to a number of factors that contribute to a relatively small pool of available executive talent. These challenges are similar to those faced by many high-growth companies in our industry. We believe that this makes recruiting and retaining key executive officers difficult, and our executive compensation program takes into account and seeks to address these challenges, including the following:

High Growth/Acquisitive We continue to be a high-growth company with rapid changes to our technology, personnel and corporate strategy related in part to our significant ongoing acquisition activity. Our revenues have also grown rapidly, as has the geographic and technical scope of our operations. Not all executives desire or are suited to manage in a high-growth environment, making the services of our current executive officers more valuable and recruiting new executives more difficult.

Highly Competitive Voice and Languages Industry The market for voice and language applications and services is highly competitive, rapidly evolving, and fragmented, and is subject to changing technology, shifting customer needs and frequent introduction of new products and services. Our position as a pioneer in this innovative and highly-competitive industry makes us a more attractive employer to some executives but a less attractive employer to others. In addition, our success has made our executive officers more attractive as candidates for employment with other companies, creating additional challenges for us to retain them.

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Executive Background Typically, we hire deeply-experienced managers with specific experience in key functional areas who have operated in a high-growth, highly-acquisitive environment similar to the one in which we operate. Given our rapid growth rate, the number of executives with the most desirable experience is relatively low and these executives are more difficult to find. We have expanded our recruiting efforts both geographically and into other industries and sectors, which leads to increased complexity in recruiting efforts and has required us to be more aggressive with our executive compensation packages.

Corporate Environment We are a demanding employer and our fast-moving, challenging culture is not always suited to the executives who comprise the talent pool from which we recruit. Like many high-growth acquisitive companies in very dynamic markets, we place extraordinary demands on executive time and attention. This perception means that often prospective executives are more focused on equity compensation, and the Compensation Committee has adjusted our compensation practices accordingly. The Compensation Committee believes that offering market-based long-term incentive opportunities with aggressive upside opportunities in our compensation packages, better aligns our executive officers interests with the performance of our common stock.

Replacement Cost When determining the compensation for a current executive officer who has been with us for a substantial period of time, the Compensation Committee takes into consideration what it may cost to hire that executive officer s replacement. The Compensation Committee believes that replacement cost is highly relevant to an executive officer s compensation because it is what we would have to pay if the executive officer left given the factors described above and it likely approximates the executive officer s own perceived value in the competitive environment for executive talent.

Our objective is to implement strategies for delivering compensation that are competitive with the overall software industry, provide sufficient emphasis on pay-for-performance and are appropriately aligned with the Company s financial goals and long-term stockholder returns.

Role and Authority of Our Compensation Committee

The members of the Compensation Committee are Messrs. Frankenberg (Chair) and Myers. The Board of Directors created the Compensation Committee to discharge the Board s responsibilities relating to the compensation of the Company s executive officers. The Compensation Committee has overall responsibility for approving and evaluating our executive compensation program and related policies and practices. The mandate of the Compensation Committee is to review and recommend to the Board of Directors the Company s compensation and benefit policies, and oversee, evaluate and approve compensation plans, policies and programs for our executive officers.

The Compensation Committee has adopted a written charter approved by the Board of Directors, which discusses in detail the Committee s responsibilities, and which is available on the Company s website at http://www.nuance.com/company/company-overview/company-policies/corporate-governance/compensation-committee/index

The Compensation Committee establishes all elements of compensation paid to our CEO and reviews management s recommendations for and approves all elements of compensation paid to our other executive officers, including the other Named Executive Officers. Our CEO, in consultation with the Senior Vice President of Human Resources and other members of our senior management, submits all recommendations regarding the compensation of our other executive officers to the Compensation Committee for its review and approval. The Compensation Committee also reviews the compensation of all non-employee directors and recommends changes, when appropriate, to the Board of Directors.

In carrying out its responsibilities, the Compensation Committee may engage outside consultants and/or consult with the Company s Human Resources department from time to time. The Compensation Committee also may obtain advice and assistance from internal or external legal, accounting or other advisers that it selects. The Compensation Committee may delegate any of its responsibilities to one or more subcommittees, to the extent permitted by applicable law. The Compensation Committee did not delegate any responsibilities to a subcommittee during fiscal 2011.

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Role of Committee Advisors

For purposes of its fiscal 2011 executive compensation review, the Compensation Committee engaged the services of Pearl Meyer & Partners, a national compensation consulting firm. As part of its engagement, Pearl Meyer & Partners provided the Compensation Committee with guidance regarding the amount and types of compensation that we provide to our executive officers, analyzed how these compared to other compensation practices and advised on other compensation-related matters.

A representative of Pearl Meyer & Partners attended meetings of the Compensation Committee as requested and also communicated with the Compensation Committee outside of meetings. Although Pearl Meyer & Partners reported to the Compensation Committee rather than to management, they met with members of management, including our CEO and the executive officers in our Human Resources department, for purposes of gathering information on proposals that management made to the Compensation Committee.

In January 2011, the Company formally retained Compensia, Inc., a national compensation consulting firm, to assist the Compensation Committee and Company management with the equity plan proposal in its 2011 proxy filing. In July 2011, the Compensation Committee formally retained Compensia, Inc. to serve as its independent advisor for the remainder of fiscal 2011. Compensia advises the Compensation Committee with respect to trends in executive compensation, peer group selection, the determination of pay programs, the assessment of competitive pay levels and mix (for example, the proportion of fixed pay to incentive/variable pay, and the proportion of annual cash pay to long-term incentive pay), and setting compensation levels. As part of its engagement, Compensia completed executive and non-employee director compensation assessments to be used in connection with fiscal 2012 compensation actions.

The Compensation Committee may replace an advisor or hire additional advisors at any time. Neither Pearl Meyer & Partners nor Compensia provided any other services to us and received no compensation other than with respect to the services described above.

Compensation Philosophy

Our compensation philosophy is designed to promote the Company s business objectives on the principle that the Company s strategic and operational achievements result from the coordinated efforts of all employees working toward common strategic goals. Our guiding compensation principles focus on:

- aligning the interests of our executive officers with those of our stockholders and customers by offering significant levels of at-risk compensation in the form of stock options and time-based and performance-based restricted stock unit awards so that the long-term incentives available to our executive officers will have a direct correlation to our financial performance;

- linking executive officer compensation to the Company s performance;

- ensuring that our executive officers are paid on the basis of their value to the organization, within the context of the applicable geographic or international locale;

- maintaining a compensation program that ensures pay rates that are competitive with those of other organizations in our labor markets, based on our current financial condition; and

- attracting, retaining and motivating the best employees.

Competitive Positioning

To determine the competitiveness of our overall executive compensation program, each year we review the compensation for comparable positions within our industry, the historical compensation levels of our executive officers and the individual performance of executive officers evaluated against their individual objectives established for the preceding fiscal year. The Compensation Committee believes the group of software companies that it uses for these purposes provides an appropriate peer group because the Company competes for the same employee pool at the executive level, is in the same or similar industry and is of generally similar size as measured by revenue and market capitalization. The Compensation Committee obtains compensation data about these companies from compensation surveys, proxy statements and other public filings. In addition, this data is supplemented by survey data from a broad group of companies that are of similar size and industry.

The Compensation Committee annually reviews the companies in our peer group and makes changes as necessary to ensure that its understanding of the competitive market is appropriate. For fiscal 2011, the Compensation Committee, with the assistance of Pearl Meyer & Partners, determined that the following companies comprised an appropriate compensation peer group based on several factors, most notably their comparable size based on revenue, market capitalization, number of employees and market sector.

Autodesk, Inc.	BMC Software, Inc.	Cadence Design Systems, Inc.
Citrix Systems, Inc.	Compuware Corporation	Lawson Software, Inc.
McAfee, Inc.	MICROS Systems, Inc.	Parametric Technology Corporation
Quest Software, Inc.	Red Hat, Inc.	Salesforce.com, Inc.
Synopsys, Inc.	Verifone Systems, Inc.	VeriSign,Inc.
VMWare, Inc.		

For fiscal 2012 (including for the non-employee director compensation assessment and changes to the program referenced herein), the Compensation Committee with the assistance of Compensia, Inc. updated the Company s peer group to account for the Company s change in total revenue and revenue growth, market capitalization and business/industry focus. In July 2011, the Compensation Committee removed Lawson Software and Quest Software from the group due to size concerns and McAfee, Inc. from the group due to its acquisition. The updated peer group to be used for fiscal 2012 is:

Akamai Technologies, Inc.	Autodesk, Inc.	BMC Software, Inc.
Cadence Design Systems, Inc.	Citrix Systems, Inc.	Compuware Corp
Cerner Corporation	Informatica Corporation	MICROS Systems, Inc.
Parametric Technology Corporation	Red Hat, Inc.	Salesforce.com, Inc.
Synopsys, Inc.	Verifone Systems, Inc.	VeriSign, Inc.
VMWare, Inc.		

The target pay mix for the Named Executive Officers during fiscal 2011 reflects our pay-for-performance philosophy and is further illustrated as follows:

NOTE: The target bonus amounts reflected in the illustration represent the target annual bonus opportunities for fiscal 2011 (which were based on a fixed percentage of the each Named Executive Officer s fiscal 2010 base salary level). The long-term equity incentives amounts include performance-based restricted stock unit awards and time-based restricted stock awards in each case, on their grant date fair values.

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Determination of Executive Officer Compensation

The Compensation Committee reviews the compensation of our executive officers annually to ensure that it is consistent with our compensation philosophy, Company and individual performance, changes in the market and executive officers individual responsibilities. Within the first quarter of our fiscal year, or in line with the Company-wide performance process, the Compensation Committee conducts a review of the performance of each executive officer, including our CEO. Our CEO presents to the Compensation Committee his evaluation of each executive officer, which includes a review of his or her contribution and performance during the past fiscal year (as compared to the performance objectives that have been established at the beginning of the fiscal year for the executive officer), strengths, weaknesses, development plans and succession potential. Our Human Resources group also assists in the reviews of the executive officers, all of whom report directly to our CEO. The Compensation Committee then makes its own assessments based on our CEO s presentation and, based on its assessments of the strengths and weaknesses and achievement against goals, approves each executive officer s bonus payment for the last completed fiscal year, including any discretionary adjustments to such awards, and the elements of each executive officer s total compensation, including performance-based compensation, for the following fiscal year, taking into account, in each case, our CEO s evaluation, the scope of the executive officer s responsibilities and experience and the Compensation Committee s own review of any competitive market data provided by its compensation consultant.

The Compensation Committee works with our CEO to define and establish his annual performance objectives. In fiscal 2011, our CEO s objectives were based on achievement of the non-GAAP corporate revenue and earnings per share targets established by the Board of Directors as part of the Company s fiscal 2011 operating plan. Our CEO works with the other Named Executive Officers to develop their annual performance objectives, which are then approved by the Compensation Committee. The fiscal 2011 annual performance objectives for the Named Executive Officers varied based on their respective business functions and responsibilities. The corporate and individual performance objectives for our executive officers are established in a manner such that target attainment is not assured, meaning the executive officers receipt of compensation for performance at or above target will require significant effort on their part.

In fiscal 2011, the compensation for the Named Executive Officers comprised the following elements:

- Base salary;
- Performance-Based Incentive Compensation;
- Long-Term Equity Incentive Compensation;
- Retirement and other benefits;
- Perquisites; and
- Severance benefits.

Elements of Executive Compensation

We have a performance-focused compensation philosophy that places emphasis on at-risk pay with a balanced focus between short-term and long-term strategic objectives. Consistent with this philosophy, a significant majority of the target total direct compensation available to the Named Executive Officers is variable, the payment and value of which depends on the Company s results. To achieve this, we use equity-based compensation in the form of stock options, time-based restricted stock unit awards (TBRSUs), performance-based restricted stock unit awards (PBRSUs) and a performance-based annual bonus plan that may be paid out in cash or shares of our common stock (with or without additional vesting provisions) or a combination of both (the Bonus Plan). The performance measures we establish for the PBRSU awards and the Bonus Plan are designed to promote stockholder return, market share increase, and revenue and earnings growth. In fiscal 2011, the Compensation Committee consulted with its compensation consultant in deciding how to balance our long-term versus short-term incentives, and given the volatile nature of the software industry, it decided to establish performance goals for fiscal 2011 based primarily on financial measure targets. Our performance measurement period for the Bonus Plan and for the PBRSU awards was fiscal 2011 and the performance goals were based upon financial measures which included corporate and

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divisional revenue achievement for corporate and divisional operating income targets, earnings per share targets and strategic business objectives that enabled us to position the Company for sustained growth in the future. The PBRSU awards are classified as long-term incentives because they are stock-based and vest only if the performance measure target levels are achieved. The PBRSU awards may cover performance periods over a one to four year fiscal period. Goals are set annually to cover the applicable fiscal year measurement period as further described in the Grants of Plan Based Awards Table.

Base Salary

Base salary provides our executive officers with a basic fixed amount of compensation. Base salary levels reflect each executive officer s responsibilities, performance and expertise and are designed to be competitive with salary levels in effect at our peer group and other comparably-sized high-technology companies. The Compensation Committee establishes base salary levels based, in part, on the market data provided by its compensation consultant for our peer group, as well as job performance and level of experience of each individual executive and internal pay parity considerations. Generally, we tie the performance-based incentive compensation opportunities and severance payments for each executive officer to his or her base salary. For fiscal 2011, the Compensation Committee reviewed the base salaries of each of the Named Executive Officers and made the following base salary adjustments:

Executive:	2011	2010	Change:
Mr. Ricci	$ 750,000	$ 575,000	$ 175,000
Mr. Beaudoin	$ 450,000	$ 400,000	$ 50,000
Mr. Chambers	$ 450,000	$ 400,000	$ 50,000
Ms. Dillione	$ 450,000	$ 450,000	
Mr. Nelson	$ 450,000	N/A	

The Compensation Committee determined that after taking into consideration 1) the prior year s Company performance 2) the salary level of each of the above Named Executive Officers against peer data provided by the compensation consultant, and 3) individual job performance, that it was appropriate to adjust the base salaries for Messrs. Ricci, Beaudoin and Chambers as set forth above. The Compensation Committee determined that the base salaries for Ms. Dillione and Mr. Nelson were at the appropriate level given the level of experience of each individual and the market data presented by Pearl Meyer & Partners.

Performance-Based Incentive Compensation

Each year, the Compensation Committee adopts an annual bonus plan, which is designed to promote the attainment of specific financial objectives (as reflected in our annual operating plan) while, at the same time, supporting our longer-term strategic business objectives, and encouraging leadership and teamwork. Our executive officers, including the Named Executive Officers, are eligible to participate in this plan. At the beginning of each fiscal year, the Compensation Committee, after consultation with our CEO, establishes one or more financial and operational performance metrics, as well as minimum, target, and maximum performance levels for each metric. Each executive officer is assigned a target bonus opportunity that generally reflects his or her position and is expressed as a percentage of his or her base salary. The amount of each executive officer s actual bonus payment is based on the extent to which the Company achieves or exceeds the pre-established target level for each performance metrics (up to a maximum percentage of 120%) that may be paid out to any executive officer.

After the end of the fiscal year, the Compensation Committee reviews the Company s performance against the financial and operational metrics and makes its bonus decisions. The Compensation Committee has the discretion to approve bonus payments which are higher or lower than an executive officer s target bonus opportunity depending on its evaluation of his or her individual performance for the year. Annual bonus payments may be made in cash or in shares of our common stock as a restricted stock unit award, which may be subject to additional vesting requirements as established by the Compensation Committee.

For purposes of the Fiscal 2011 Bonus Plan (the Bonus Plan), the Compensation Committee reviewed the fiscal 2010 target bonus opportunity for each executive officer, including the Named Executive Officers, and determined that, in comparison to our peer group, adjustments to Messrs. Beaudoin and Chambers were warranted

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to bring them more in line with the competitive market. No adjustments were made to the target bonus opportunities of the other Named Executive Officers whose fiscal 2011 target bonus opportunities were maintained at their fiscal 2010 levels, with the exception of Mr. Nelson who started with the Company in April 2011. The target bonus opportunities of the Named Executive Officers for fiscal 2011 were as follows:

Executive Name	Fiscal 10 Bonus Opportunity Percentage	Fiscal 11 Bonus Opportunity Percentage
Mr. Ricci	100%	100%
Mr. Beaudoin	60%	75%
Mr. Chambers	63%	75%
Ms. Dillione	83%	83%
Mr. Nelson	N/A	78%

Under the Bonus Plan, bonus payments were based on the Company s actual performance as measured against two corporate financial metrics (non-GAAP revenue and non-GAAP earnings-per-share) which were critical to the successful execution of our fiscal 2011 operating plan. The Bonus Plan provided for full funding at the target bonus opportunity level if the Company achieved non-GAAP revenue of $1.37 billion and non-GAAP earnings-per-share of $1.30.

The Company calculates non-GAAP revenue and non-GAAP earnings per share for purposes of the Bonus Plan in the same manner that it calculates these measures for purposes of its quarterly earnings announcements. In performing this calculation, we either included or excluded items in six general categories, each of which are described below.

Acquisition-Related Revenue and Cost of Revenue. The Company includes revenue and cost of revenue related to acquisitions that would otherwise have been recognized but for the purchase accounting treatment of these transactions. Non-GAAP revenue also includes revenue that the Company would have otherwise recognized had the Company not acquired intellectual property and other assets from the same customer during the same quarter.

Acquisition-Related Costs, Net. The Company has completed a number of acquisitions, which result in operating expenses which would not otherwise have been incurred. These acquisition-related costs are included in the following categories: (i) transition and integration costs; (ii) professional service fees; and (iii) acquisition related adjustments. These categories are further discussed as follows:

(i) Transition and integration costs. Transition and integration costs include retention payments, transitional employee costs, earn-out payments treated as compensation expense, as well as the costs of integration-related services provided by third parties.

(ii) Professional service fees. Professional service fees include direct costs of the acquisition, as well as post-acquisition legal and other professional service fees associated with disputes and regulatory matters related acquired entities.

(iii) Acquisition-related adjustments. Acquisition related adjustments include adjustments to acquisition-related items that are required to be marked to fair value each reporting period, such as contingent consideration, and other items related to acquisitions for which the measurement period has ended, such as gains or losses on settlements of pre-acquisition contingencies.

Amortization of Acquired Intangible Assets. The Company excludes the amortization of acquired intangible assets from the calculation of non-GAAP earnings per share.

Costs Associated with IP Collaboration Agreement. The Company has entered into two IP collaboration agreements spanning six and five years, respectively. All intellectual property derived from these collaborations will be jointly owned by the two parties, but the Company will have sole rights to commercialize this intellectual property during the term of these agreements. For non-GAAP purposes, the Company considers these long-term contracts and the resulting acquisitions of intellectual property from this third-party over the agreements terms to be an investing activity, outside of its normal, organic, continuing operating activities, and it therefore calculates non-GAAP earnings per share excluding these expenses.

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Non-Cash Expenses. The Company excludes the following non-cash expenses when calculating non-GAAP earnings per share: (i) stock-based compensation; (ii) certain accrued interest; and (iii) certain accrued income taxes.

Other Expenses. The Company excludes certain other expenses that are the result of unplanned events when calculating non-GAAP earnings per share. These items also include adjustments from changes in fair value of share-based instruments relating to the issuance of our common stock with security price guarantee payable in cash.

For fiscal 2011, our non-GAAP revenue was $1.39 billion and our non-GAAP earnings-per-share was $1.36. Based on these results, the Compensation Committee approved the funding of the Bonus Plan at 100% of the approved target level. The Compensation Committee then exercised its discretion in determining the bonus payments for each of the Named Executive Officers as follows:

The Compensation Committee determined that the payment to our CEO at 100% of his target bonus opportunity was appropriate after reviewing his individual performance for fiscal 2011 and the strong financial results for the Company. The Compensation Committee further determined that our CEO s bonus payment would be made entirely in cash.

The Compensation Committee determined that the payment to Mr. Beaudoin at 100% of his target bonus opportunity was appropriate after reviewing his individual performance for fiscal 2011 and the strong financial results for the Company.

The Compensation Committee determined that the payment to Mr. Chambers at 100% of his target bonus was appropriate after reviewing his individual performance for fiscal 2011 along with the financial performance of the Company which Mr. Chambers had tremendous influence in achieving. Mr. Chambers was responsible for global sales and marketing as well as acting as General Manager of our enterprise division.

The Compensation Committee determined that the payment to Ms. Dillione at 87% of her target bonus was appropriate after reviewing her individual performance for fiscal 2011 along with the financial performance for the division under Ms. Dillione s responsibility. The healthcare division did not meet all its fiscal 2011 goals and therefore the Committee determined that a payout of less than 100% for Ms. Dillione was more appropriate.

The Compensation Committee determined that the payment to Mr. Nelson at 100% of his pro-rated target bonus opportunity was appropriate after reviewing his individual performance for 2nd half fiscal 2011 along with the financial performance of the Company which Mr. Nelson had tremendous influence in achieving during the 2nd half of fiscal 2011. Mr. Nelson s target bonus opportunity which was pro-rated to reflect his joining the Company mid-way through the fiscal year.

The target bonus opportunities and actual bonus payments for the Named Executive Officers for fiscal 2011 are set forth below:

Fiscal 2011 Target	Fiscal 2011 Actual Bonus	Fiscal 2011 Actual Bonus Amount	Total Value	Total Percentage of

Name	Threshold 20% ($)	Bonus Amount	Maximum 120% ($)	Amount (Cash)	Restricted Stock Units	of Fiscal 2011 Bonus Earned	Fiscal 2011 Bonus Earned
Mr. Ricci	$ 150,000	$ 750,000	$ 900,000	$ 750,000	0	$ 750,000	100%
Mr. Beaudoin	$ 67,500	$ 337,500	$ 405,000	0	13,408	$ 337,500	100%
Mr. Chambers	$ 67,500	$ 337,500	$ 405,000	0	13,408	$ 337,500	100%
Ms. Dillione	$ 75,000	$ 375,000	$ 450,000	0	12,912	$ 325,000	87%
Mr. Nelson	$ 32,411	$ 162,055	$ 194,466	0	6,436	$ 162,000	100%

With the exception of our CEO (whose bonus was paid in cash due to the limitations under our equity compensation plans for Section 162(m) of the Internal Revenue Code of 1986, as amended), the bonus payments for fiscal 2011 were paid in restricted stock unit awards. To the extent the Named Executive Officer s bonus was paid in the form of a restricted stock unit award, the number of shares of our common stock subject to these restricted stock unit awards were determined using the closing market price of our common stock on November 1, 2011, or $25.17 per share,

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which was the date the Compensation Committee approved the funding amount for the Bonus Plan. These restricted stock unit awards vested on December 9, 2011. Our CEO s bonus payment will be paid in the December 2011 payroll cycle.

Long Term Equity Incentive Compensation

We grant equity compensation to our executive officers, including the Named Executive Officers, in the form of stock options and restricted stock unit awards to provide them with a long-term incentive compensation opportunity. Vesting of these equity awards is designed to align the interests of our executive officers with those of the stockholders and to provide each individual with a significant incentive to manage the Company from the perspective of an owner and to remain employed by the Company.

We have made significant changes to our long-term incentive compensation program over the past several years to reduce its dilutive effects. In fiscal 2005, we introduced time-based restricted stock unit awards (RSUs) with acceleration of vesting upon the achievement of one or more pre-established financial performance target levels. In fiscal 2006, we moved to a combination of stock options, performance-based equity awards, and time-based equity awards to begin to integrate performance-based equity awards into our program.

In January 2011, the Company committed to further strengthen our pay-for-performance philosophy by providing that at least 50% of all future equity awards granted to our Named Executive Officers would be performance-based awards that are earned or paid out based on the achievement of one or more reasonable performance metrics. The Compensation Committee believes that these equity awards will better align the interests of our senior executive officers with the interests of stockholders and help reduce overall dilution. The Compensation Committee also believes that this commitment will increase our ability to retain our executive officers by increasing their opportunity to receive full value equity awards (such as RSUs) and, thus, avoid the potential loss of an award s incentive value (such as in the case of an underwater stock option). Please note that several of the equity awards described in the table below were granted prior to the Company s January 2011 commitment.

Typically, the Compensation Committee reviews the executive officers prior years fiscal year performance at the first meeting of the fiscal year and will grant equity awards if deemed appropriate at that meeting. In fiscal 2011, the Compensation Committee determined equity award amounts based on its evaluation of on the performance of each executive officer, their skills, expertise, and experience, their expected future contributions, its retention objectives, and after reviewing the market data provided by Pearl Meyers & Partners.

Any equity granted to employees as promotion or retention awards or to newly hired eligible employees are generally granted on the 15th of the month following the effective date of the promotion, retention or hire, or the first business day thereafter if such day is not a business day, with the exception of the issuance of inducement awards which are granted promptly following the closing of an acquisition or upon hiring of an employee. In the case of stock options, the exercise price of an option is the closing market price of our common stock on the NASDAQ Stock Market on the date of grant. All stock option grants to the Named Executive Officers are granted with an exercise price equal to or above the fair market value of the underlying shares of common stock on the date of grant. The Compensation Committee does not grant equity awards in anticipation of the release of material nonpublic information. Similarly, the Company does not time the release of material nonpublic information based on equity award grant dates.

In November 2010, the Compensation Committee granted our CEO a time-based restricted stock unit award (TBRSU) for 375,000 shares of our common stock, a performance-based restricted stock unit award (PBRSU) for 375,000 shares of our common stock, and a non-qualified stock for 1,000,000 shares of our common stock, pursuant to his amended and restated employment agreement entered into on June 23, 2009. Under this agreement, the Compensation Committee is to review his performance on an annual basis and, based on this review, grant equity awards to him consistent with prior fiscal year s practice if his performance warrants. After review of our Company s performance and our CEO s individual performance, the Compensation Committee determined that these awards were warranted, even though these awards bring his total direct compensation significantly above the 75th percentile of the peer group, given our CEO s status as a founder of the Company and his leadership position in our industry. The Compensation Committee also took into consideration the risk of other companies attempting to recruit him away from the Company. The Compensation Committee also believes that the replacement cost is

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highly relevant to an executive officer s compensation because it is what we would have to pay if the executive left given the factors described above and it likely approximates the executive s own perceived value in the competitive environment for executive talent.

In the case of Messrs. Beaudoin and Chambers and Ms. Dillione, the Compensation Committee reviewed their performance, the competitive positioning of the executive officer s existing equity awards, and relevant market data, and determined that it was appropriate to grant equity awards to them. These awards were granted half as TBRSUs and half as PBRSUs to directly align their performance and compensation with achievement of goals and to also ensure retention in the organization given the challenges that a high growth organization face. In the case of Mr. Chambers, the Compensation Committee also took into consideration that he was also asked to take oversee Enterprise Division as well as maintain his position overseeing Global Sales and Marketing.

During fiscal 2011, the Compensation Committee approved the following equity awards to the Named Executive Officers as follows:

Named Executive Officer	Award Type	Grant Date	Number of Shares of Common Stock Subject to the Award	Applicable Vesting Schedule
Paul A. Ricci	TBRSU	November 15, 2010	375,000	Award vests in full on September 30, 2012
	PBRSU	November 15, 2010	375,000	Award vesting is tied to fiscal 2012 performance; target performance level will be set in the first quarter of fiscal 2012
	Non-Qualified Stock Option	November 15, 2010	1,000,000	Award vests in full on September 30, 2012
Thomas L. Beaudoin	TBRSU	November 15, 2010	50,000	Award vests in two equal increments on 11/15/2011 and 11/15/2012
	PBRSU	November 15, 2010	50,000s	50% of award vesting tied to fiscal 2011 performance and 50% tied to fiscal 2012 performance
	TBRSU	December 15, 2010(1)	11,253	Vested in full on March 15, 2011
Steven G. Chambers	TBRSU	November 15, 2010	125,000	Vested in full on November 15, 2011
	PBRSU	November 15, 2010	125,000	Award vesting tied to fiscal 2011 performance
	TBRSU	December 15, 2010(1)	13,077	Vested in full on March 15, 2011

Janet Dillione	TBRSU	November 15, 2010	30,000	Award vests in two equal increments on 11/15/2011 and 11/15/2012
	PBRSU	November 15, 2010	30,000	50% of award vesting tied to fiscal 2011 performance and 50% tied to fiscal 2012 performance
	TBRSU	December 15, 2010(1)	9,124	Vested in full on March 15, 2011

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Named Executive Officer	Award Type	Grant Date	Number of Shares of Common Stock Subject to the Award	Applicable Vesting Schedule
William K. Nelson	TBRSU	April 15, 2011(2)	150,000	Award vests in three equal increments on 4/15/2012, 4/15/2013 and 4/15/2014
	PBRSU	April 15, 2011(2)	150,000	1/6 of award tied to fiscal 2011 goals, 1/3 of the shares tied to fiscal 2012 goals, 1/3 of the shares tied to fiscal year 2013 goals and 1/6 of the shares tied to fiscal 2014 goals. For fiscal years 2012, 2013 and 2014, goals will be set by the Compensation Committee in the first quarter of the applicable fiscal year.

(1) These equity awards were granted to the Named Executive Officers in partial settlement of their bonus payments under the Company s Fiscal 2010 Bonus Plan.

(2) These equity awards were granted to Mr. Nelson as part of his compensation package when he joined the Company in April 2011.

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In addition to the foregoing, the vesting of the PBRSUs granted to the Named Executive Officers is based upon the achievement of financial performance objectives as well as management business objectives established on an individual basis, at the beginning of the fiscal year or, in Mr. Nelson s case, upon hire, by the Compensation Committee. Individual performance objectives are approved by the Compensation Committee and include financial performance objectives as well as management business objectives. For fiscal 2011, the following table summarizes the performance measures and achievement against the target levels for those measures for the PBRSU awards grants.

Named Executive	# of PBRSUs	Fiscal 2011 Performance Metric	Percentage Achievement for Fiscal 2011 Performance Metric	# of PBRSUs Earned
Paul A. Ricci	187,500	Up to 50% of PBRSUs will vest for achievement of corporate revenue target $1.35 billion.	100%	187,500
	187,500	Up to 50% of PBRSUs will vest for achievement of corporate earnings per share target $1.28	103%	187,500
	375,000	Linear scaling as follows: 90% achievement will vest 50% of shares. For achievement above 90% vesting will be linear up to 100%.	100% vest	375,000
Thomas L. Beaudoin	8,750	Up to 20% of PBRSUs will vest for achievement of corporate revenue target $1.35 billion.	100%	8,750
	8,750	Up to 20% of PBRSUs will vest for achievement of corporate earnings per share target -$1.28 Linear scaling as follows: 90% achievement will vest 50% of shares. For achievement above 90% vesting will be linear up to 100%.	103%	8,750
	8,750	20% of PBRSUs tied to corporate gross margin target.	99%	0
	8,750	20% of PBRSUs tied to cash flow from operations target.	105%	8,750
	8,750	20% of PBRSUs tied to savings from cost & productivity goals.	112%	8,750
	43,750		80% vest	35,000

Steven G. Chambers	75,000	Up to 60% of PBRSUs will vest for achievement of worldwide revenue target.	99%	71,250
	25,000	Up to 20% of PBRSUs will vest for achievement of corporate earnings per share target. Linear scaling as follows: 90% achievement will vest 50% of shares. For achievement above 90% vesting will be linear up to 100%.	103%	25,000
	25,000	20% of PBRSUs tied to corporate positioning target	0	0
	125,000		77% vest	96,250

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Named Executive	# of PBRSUs	Fiscal 2011 Performance Metric	Percentage Achievement for Fiscal 2011 Performance Metric	# of PBRSUs Earned
Janet Dillione	22,000	Up to 40% of these PBRSUs will vest for achievement of fiscal 2011 Healthcare revenue target;	98%	19,800
	11,000	Up to 20% of these PBRSUs will vest for achievement of fiscal 2011 Healthcare operating income target. Linear scaling as follows: 90% achievement will vest 50% of shares. For achievement above 90% vesting will be linear up to 100%.	100%	11,000
	22,000	40% of these PBRSUs will vest for achievement of management based objectives related to plan acceptance of CLU and Cloud Platform initiatives for fiscal 2011	100%	22,000
	55,000		96% vests	52,800
William K. Nelson	18,750	Up to 75% of PBRSUs will vest for achievement of FY11 2nd half corporate revenue target.	99%	17,813
	6,250	25% of PBRSUs tied to corporate earnings per share target.	100%	6,250
	25,000	Linear scaling as follows: 90% achievement will vest 50% of shares. For achievement above 90% vesting will be linear up to 100%.	96% vest	24,063

Retirement and Other Benefits

We offer our employees a Section 401(k) retirement plan to provide a tax-advantaged savings plan. We make matching contributions to the plan to encourage employees to save money for their retirement. The plan enhances our ability to attract and retain key employees because it increases the range of benefits we offer to them.

All of our U.S. employees, including our executive officers, are entitled to participate in the Section 401(k) plan. The Company matches 50% of the first 4% of eligible compensation that is contributed to the plan. Non-U.S. employees are covered under different retirement plans.

We have maintained the Nuance Communications, Inc. 1995 Employee Stock Purchase Plan, or the ESPP, since its adoption in 1995. Eligible employees, including our executive officers, may elect to contribute between 1% and 12% of their annual cash compensation, on an after-tax basis, to purchase shares of our Common Stock; provided, however, that an employee may not purchase more than 2,000 shares of our common stock per offering period, or $25,000 of Company Common Stock per year pursuant to Internal Revenue Service restrictions. We issue shares of our Common Stock under the ESPP in six month offering periods to eligible employees at a price that is equal to eighty-five percent of the lower of the Common Stock s fair market value at the beginning or the end of the offering period.

We offer an enhanced wellness program to our executive officers to maximize the health of our executive team. This benefit provides for an enhanced annual medical exam for each executive officer.

The Named Executive Officers, other than our CEO, are eligible to receive a $500,000 term life insurance policy at the Company s expense which is in addition to the broad-based program that provides term life insurance for all employees in an amount up to the lesser of $500,000 or two times the employee s base salary. Our CEO receives a $1 million term life insurance policy at the Company s expense, in addition to the broad-based program described above.

All of our employees based in the United States receive long-term disability benefits that provide for payment of 60% of their eligible earnings capped at a maximum of $13,000 in disability benefits per month if they are deemed to be unable to work in their own occupation for a period of two years. Beyond the second year, if able, employees will be required to return to work to any position they are suited for, based on education and training. We provide for an enhanced disability benefit to the Named Executive Officers that provides for a payment of 60% of their eligible earnings capped at a maximum of $18,500 per month, with the exception of our CEO who is not subject to this maximum amount and has a benefit of 60% of his base earnings. In addition, the Named Executive Officers have an enhanced Own Occupation provision that provides for continuation of benefits beyond the two years if they cannot return to their own occupation.

We offer a variety of health and welfare programs to all eligible employees. Generally, the Named Executive Officers are eligible for benefit programs on the same basis as the rest of our broad-based employees, other than Mr. Ricci who receives a post-retiree medical reimbursement per his employment agreement. The health and welfare programs are intended to encourage a healthy lifestyle and protect employees against catastrophic loss. Our health and welfare programs include medical, wellness, dental, vision, disability, life insurance and accidental death and dismemberment.

Perquisites

We provide the Named Executive Officers with certain perquisites, including reimbursement for tax and financial planning services, an annual wellness benefit, and a car allowance (if applicable), the incremental costs to the Company of which are reflected in the Summary Compensation Table below. The Compensation Committee believes these perquisites are reasonable and consistent with the Company s overall compensation program, because they better enable the Company to attract and retain superior employees for its key positions. In addition, these perquisites are provided to ensure the Named Executive Officers health and financial affairs are taken care of in order to focus on their respective positions. The Compensation Committee reviews and approves the perquisites provided to the Named Executive Officers on an annual basis.

Executive Severance Arrangements

The Compensation Committee has entered into agreements, on behalf of the Company, with our CEO and certain other executive officers, including each of the other Named Executive Officers, which provide for certain payments and benefits upon certain terminations of employment, including certain terminations of employment following a change in control of the Company. In exchange for these payments and benefits, an executive officer must release the Company from any claims relating to his or her employment and termination.

We believe that these protections are necessary to help motivate and retain our executive officers and, in some cases, helped induce them to forego other opportunities or leave their current employment for the uncertainty of a demanding position in a new and unfamiliar organization. We also believe that these arrangements will help our executive officers maintain continued focus and dedication to their responsibilities to help maximize stockholder value when analyzing a potential transaction that could involve a change in control of the Company.

Tax Considerations

Section 162(m) of the Internal Revenue Code imposes a $1 million limit on the deductibility of compensation paid to certain executive officers of public companies, unless the compensation meets certain requirements for performance-based compensation. In determining executive compensation, the Compensation Committee considers, among other factors, the possible tax consequences to the Company and to the executive officers. However, tax consequences, including but not limited to tax deductibility by the Company, are subject to many factors (such as changes in the tax laws and regulations or interpretations thereof and the timing and nature of various decisions by executive officers regarding stock options and other rights) that are beyond the Compensation Committee s and the Company s control. In addition, the Compensation Committee believes that it is important for it to retain

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maximum flexibility in administering an executive compensation program that meets its stated objectives. For these reasons, although the Compensation Committee considers tax deductibility as one of the factors in determining executive compensation, it does not necessarily limit compensation to those levels or types of compensation that will be deductible. The Compensation Committee will, of course, consider alternative forms of compensation consistent with our compensation goals, which preserve deductibility as much as possible.

Section 280G

Section 280G of the Code disallows a Company s tax deduction for what are defined as excess parachute payments and Section 4999 of the Code imposes a 20% excise tax on any person who receives excess parachute payments. The Compensation Committee believes that the provision of tax gross-up protection for executive officers is not appropriate, and therefore no longer provides for any gross-up provisions with executive officers. This includes our CEO, whose employment agreement does not contain any such provision.

Accounting for Stock-Based Compensation

We follow Financial Accounting Standard Board Accounting Standards Codification Topic 718 (FASB ASC Topic 718) for our stock-based compensation awards. FASB ASC Topic 718 requires companies to measure the compensation expense for all share-based payment awards made to employees and directors, including stock options, based on the grant date fair value of these awards. This calculation is performed for accounting purposes and reported in the compensation tables below, even though our executive officers may never realize any value from their awards. FASB ASC Topic 718 also requires companies to recognize the compensation cost of their stock-based compensation awards in their income statements over the period that an executive officer is required to render service in exchange for the option or other award.

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SUMMARY COMPENSATION TABLE

The table below sets forth, for the period indicated, the compensation earned by or paid by the Company to the Named Executive Officers during fiscal 2011, fiscal 2010, and fiscal 2009.

nd Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)	To (
Ricci	2011	751,923		13,023,750	6,132,000	750,000(2)	54,636(3)	20,71
xecutive Officer	2010	575,000		12,873,849	5,818,100	460,000	45,182	19,77
	2009	557,308		6,988,165	6,226,900	550,000	70,766	14,39
L. Beaudoin	2011	459,615		1,827,892		(4)	25,707(5)	2,31
ve Vice President	2010	381,346		1,202,679			34,054	1,61
ef Financial Officer	2009	339,231		1,446,795		75,000(9)	26,826	1,88
G. Chambers	2011	459,615	55,000(6)	4,580,298		(7)	39,465(8)	5,13
ve Vice	2010	400,000		2,213,310		96,806	30,824	2,74
nt Worldwide	2009	387,692		1,631,310		75,000	34,677	2,12
d Chief Marketing								
llione	2011	467,308		1,665,937		(9)	80,253(10)	2,21
ve Vice President &	2010	211,514		3,296,789			26,284	3,53
althcare Division (11)								
K. Nelson(12)	2011	209,423		3,375,750		(13)	3,612(14)	3,58
ve Vice President								
ide Sales								

(1) The amounts reported do not reflect compensation actually received by the Named Executive Officer. Instead, the amounts reported reflect the grant date fair value of the equity awards granted in each covered fiscal year, as computed in accordance to FASB ASC Topic 718. The assumptions used to calculate the grant date fair value of the stock option reported in the Option Awards column are set forth under Note 17 of the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for fiscal 2011 filed with the SEC on November 29, 2011.

(2) Mr. Ricci earned this bonus pursuant to the Company s 2011 Bonus Plan. The bonus will be paid on December 15, 2011.

(3) The amount reported in the All Other Compensation column consists of the following items:

2011

Matching contributions to Section 401(k) plan	$ 4,900
Reimbursement for tax and financial planning services	8,706
Gross up for taxes on reimbursement for tax and financial planning services	4,263
Enhanced long term disability benefits	10,266
Premiums for term life insurance policy	3,450
Car Allowance	20,769
Chairman s Club	2,282
Total	$ 54,636

(4) Mr. Beaudoin received his bonus pursuant to the Company s 2011 Bonus Plan in the form of a restricted stock unit award having a value equal to $337,500 converted into 13,408 shares of our common stock. This award vested in full on December 9, 2011.

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(5) The amount reported in the All Other Compensation column consists of the following items:

2011	
Matching contributions to Section 401(k) plan	$ 4,500
Enhanced long term disability benefits	3,349
Car Allowance	15,576
Chairman s Club	2,282
Total	$ 25,707

(6) Mr. Chambers received this bonus for extraordinary performance during the first half of fiscal 2011.

(7) Mr. Chambers received his bonus pursuant to the Company s 2011 Bonus Plan in the form of a restricted stock unit award having a value equal to $337,500 converted into 13,408 shares of our common stock. The award vested in full on December 9, 2011.

(8) The amount reported in the All Other Compensation column consists of the following items:

2011	
Matching contributions to Section 401(k) plan	$ 4,208
Reimbursement for tax and financial planning services	5,000
Gross up for taxes on reimbursement for tax and financial planning services	2,839
Enhanced long term disability benefits	3,348
Car Allowance	15,577
Premium for term life insurance policy	1,165
Taxable benefit for domestic partner coverage	5,046
Chairman s Club	2,282
Total	$ 39,465

(9) Ms. Dillione received her bonus pursuant to the Company s 2011 Bonus Plan in the form of a restricted stock unit award having a value equal to $325,000 converted into 12,912 shares of our common stock. This award vested in full on December 9, 2011.

(10) The amount reported in the All Other Compensation column consists of the following items:

2011	
Matching contributions to Section 401(k) plan	$ 1,435
Enhanced long term disability benefits	3,348
Temporary Living Allowance	49,757
Reimbursement for home travel	25,713

Total	$ 80,253

(11) Ms. Dillione began her employment with the Company on April 1, 2010.

(12) Mr. Nelson began his employment with the Company on April 15, 2011.

(13) Mr. Nelson received his bonus pursuant to the Company s 2011 Bonus Plan in the form of a restricted stock unit award having a value equal to $162,000 converted into 6,436 shares of our common stock. This award vested in full on December 9, 2011. Mr. Nelson s bonus was prorated to reflect his partial year of employment.

(14) The amount reported in the All Other Compensation column consists of the following items:

2011	
Matching contributions to Section 401(k) plan	$ 2,077
Enhanced long term disability benefits	